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CIAE-00 INO-00 NSAE-00 RSC-01 OMB-01 RSR-01 PM-08 4-02

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R 080853Z JAN 73
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC 9548
INFO AMEMBASSY REIRUT
AMEMBASSY JODDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY PARIS

DEPARTMENT OF STATE A/CDC/WR	
REVIEWED BY <u>cf</u>	DATE <u>12/20/82</u>
RDS ☐ or XDS ☐ DATE	
TS AUTH. <u>SEARCH(S)</u>	
ENDORSE EXISTING MARKINGS ☒	
DECLASSIFIED ☐	
RELEASE DATE <u>12/19/82</u>	
PA or FOI EXEMPTIONS <u>B1, A9</u>	

C O N F I D E N T I A L SECTION 1 OF 2 TRIPOLI 00024

DEPT PASS CAIRO

SUBJ: LAR/OIL COMPANY RELATIONS ON EVE OF PARTICIPATION
TALKS

REF: TRIPOLI 19255 TRIPOLI 0007 ✓

SUMMARY: LARG WILL BEGIN ITS FIRST SERIOUS PARTICIPATION
NEGOTIATIONS JANUARY 10 WITH U.S. PARTNERS OF OASIS.
NEGOTIATIONS WILL PROBABLY BE PROTRACTED WITH BOTH SIDES
USING PERSIAN GULF AGREEMENTS AS POINT OF REFERENCE, THE
LIBYANS TRYING TO BETTER THEM AND THE OIL COMPANIES
STRIVING TO KEEP ANY ARRANGEMENT WITH LAR CLOSE TO WHAT
HAS BEEN HAMMERED OUT WITH YAMANI. FOR FIRST TIME SINCE
SEPTEMBER 1969 REVOLUTION AND ENSUING PERIOD OF LAR-OIL
COMPANY TENSIONS, COMPANIES HAVE SOME SIGNIFICANT
ADVANTAGES; NOT ONLY ARE THEY RELATIVELY UNITED BUT ALSO,
AND MORE IMPORTANTLY, THE LARG FACES PROBLEMS WHICH
TRANSCEND SIMPLE URGE FOR GREATER CONTROL OR HIGHER PER
BARREL TAKE. WE ESTIMATE THAT NEGOTIATIONS WILL SPAN

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CONSIDERABLE TIME, AND WILL RESULT IN AGREEMENT RELATIVELY CLOSE TO ONE SIGNED IN RIYADH DECEMBER 20. END SUMMARY.

1. AFTER GIVING INDUSTRY FALSE ALARM THROUGH SUMMONS TO RUNKER HUNT IN EARLY OCTOBER, LARG IS NOW APPARENTLY READY TO DISCUSS PARTICIPATION MORE SERIOUSLY WITH MAJOR PRODUCER OASIS (TRIPOLI 1925). ADDITIONAL EVIDENCE THAT RUNKER HUNT PROBLEM NOW DISCONNECTED FROM GENERAL PARTICIPATION TALKS CAME JANUARY 4, WHEN [REDACTED] INFORMED [REDACTED] THAT CURRENT TALKS WITH BH HAVE NOTHING TO DO WITH PARTICIPATION AND THAT ANY PROBLEMS ARE STRICTLY OPERATIONAL ONES BETWEEN BP'S SUCCESSOR, ARAB GULF EXPLORATION COMPANY (AGEC), AND BH. WE ARE PERSUADED THAT LARG ORIGINAL INTENTION WAS TWO-FOLD WHEN IT SUMMONED BH AND THAT IT HAS IN EFFECT RACKED DOWN ON PARTICIPATION ASPECT OF ITS DEMANDS, PROBABLY BECAUSE IT WOULD BE DIFFICULT TO EXTEND ANY "VICTORY" OVER BH TO INDUSTRY AS A WHOLE, GIVEN BH'S SPECIAL STATUS. B1

2. GENERAL POLITICAL AND ECONOMIC CLIMATE IS PROBABLY MORE FAVORABLE TO OIL COMPANIES THAN AT ANY TIME SINCE 1969 REVOLUTION. COMPANIES ARE UNITED AND, AT LEAST IN SHORT RUN, WORLD PETROLEUM SUPPLY AND TRANSPORT SITUATIONS ARE RELATIVELY FAVORABLE. MORE SIGNIFICANT IS LARG'S PROBABLE ESTIMATE OF ITS REQUIREMENTS AND OBJECTIVES. WE HEAR PERSISTENT REPORTS THAT HIGHEST LEVELS OF LARG ARE CONCERNED ABOUT CURRENT EXPENDITURES EXCEEDING INCOME, AND ABOUT DECLINE IN FOREIGN EXCHANGE RESERVES (IMF FIGURES FOR OCTOBER 1972 SHOW THAT RESERVES ARE DOWN TO DOLLARS 2.83 BILLION, LOWEST LEVEL SINCE MARCH 1972). IT IS CLEAR, TOO, THAT QADHAFI IS EXHILARIATED BY HIS SUB-SAHARA POLITICAL SUCCESSES AT THE EXPENSE OF HIS ZIONIST ENEMY. BUT THESE SUCCESSES HAVE COST LARG SOMETHING TOO--MONEY. QADHAFI'S COLLEAGUES ON THE RCC SEEM LITTLE INCLINED TO CURB HIS ZEAL BUT CAN REASONABLY BE EXPECTED TO WORRY ABOUT THE SOURCE OF LIBYA'S ECONOMIC MUSCLE. IN ADDITION, LARG HAS ITS DEVELOPMENT PLAN TO FULFILL AND THERE HAVE BEEN NUMEROUS ADDITIONS TO THE PLAN OVER THE PAST FEW MONTHS. FINALLY, THERE IS ALSO THE MUCH-PRIZED UNION WITH EGYPT SCHEDULED FOR SEPTEMBER OF THIS YEAR. CAIRO WOULD BE VERY DISAPPOINTED AT ANY CURTAILMENT OF THE LARG'S OIL INCOME.

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3. IN THIS ATMOSPHERE IT IS NOT SURPRISING THAT [REDACTED]

[REDACTED] FOLLOWING AREAS WHERE [REDACTED] LARG READY TO OFFER COMPANIES RELIEF, SECURITY, INVESTMENT, PORTS AND LIGHTS

FEES, LIBYANIZATION, ALLOWABLES, AND PAYMENT IN DINARS TO SERVICE COMPANIES (FOR DISCUSSION OF LAST SEE TRIPOLI A-159, OCTOBER 5, 1972). [REDACTED] COUNCIL OF MINISTERS MEETINGS ATTENDED BY JALLUD AND QADHAFI IN WHICH THERE WAS CONSIDERABLE FINGER-POINT AMIDST EFFORTS TO EXPLAIN WHY OIL COMPANIES MISTRUST LARG AND HAVE LOWERED LEVEL OF INVESTMENT TO MERE TRICKLE. [REDACTED] TRIED TO INTEREST INDUSTRY HERE IN PUTTING TOGETHER INDUSTRY WHITE PAPER WHICH WOULD EXPLAIN IN DETAIL COMPANIES' PROBLEMS. HE MET WITH LITTLE ENTHUSIASM [REDACTED]

4. MEANWHILE, COMMENTS ABOUT THE OIL COMPANIES AND THE FORTHCOMING PARTICIPATION TALKS BY RCC MEMBER AND PM JALLUD HAVE BEEN RELATIVELY MODERATE, AT LEAST BY LIBYAN STANDARDS. IN A SPEECH TO UNIVERSITY STUDENTS JANUARY 2, JALLUD LISTED REASONS FOR LARG'S PRESSING FOR PARTICIPATION AS FOLLOWS: RISE IN OIL REVENUES FOLLOWING RISE IN POSTED PRICES, INADEQUACY OF LAR'S RESERVES, FOREIGN COMPANIES NOT USING ADEQUATE MODERN METHODS FOR EXPLORATION, AND WORLD MONETARY INFLATION. HE CONCLUDED THIS ADDRESS BY INSISTING THAT THERE ARE GREAT QUANTITIES OF OIL AND GAS IN THE LAR WHICH COULD, IF DISCOVERED, ADD TO THE COUNTRY'S RESERVES. THESE COMMENTS TAKEN TOGETHER DO NOT GIVE A CLEAR AND UNAMBIGUOUS PICTURE OF THE LAR'S OIL POLICY. FROM THEM, HOWEVER, ONE COULD ARGUE THAT A) JALLUD SEES THE MAJOR BATTLE AGAINST THE OIL COMPANIES AS ALREADY WAGED AND WON; B) THAT THE LARG IS CONCERNED ABOUT THE STATE OF PWS OIL RESERVES; C) THAT FOREIGN OIL COMPANIES SHOULD HAVE MAJOR ROLE IN DISCOVERING NEW OIL RESERVES, AND D) THAT ACHIEVING HIGHER POSTED PRICES IS NOT A MAJOR LARG OBJECTIVE AT THE MOMENT.

NOTE BY OC/T: NOT PASSED CAIRO.

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CIAE-00 INP-09 NSAF-00 RSC-01 OMP-01 RSR-01 PM-08 H-02

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R 000552Z JAN 73
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC 9549
INFO AMEMBASSY BEIRUT
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY PARIS

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SUPJ: LAR/OIL COMPANY RELATIONS ON EVE OF PARTICIPATION
TALKS

5. HAS THE LARG DONE ANYTHING CONCRETE TO INDICATE THAT IT MIGHT BE SERIOUS ABOUT TRYING TO ESTABLISH A NEW ERA IN ITS RELATIONS WITH THE OIL COMPANIES? YES AND NO. MOSTLY NO. ON DECEMBER 28 MINISTRY OF PETROLEUM ISSUED AMENDMENT TO PETROLEUM REGULATION 8, THE LAR'S BASIC CONSERVATION DOCUMENT. (FULL TEXT OF AMENDMENT WILL BE POUCHED LATER TOGETHER WITH APPROPRIATE COMMENT.) AT FIRST GLANCE AMENDMENT, WHICH PETROLEUM UNDERSECRETARY MUNTASSIR TOUTS TO INDUSTRY AS "WHAT YOU HAVE BEEN ASKING FOR", APPEARS TO EMBODY A MORE GENEROUS AND REASONABLE ALLOWABLE FORMULA. BUT OTHER PROVISIONS CONCERNING REQUIREMENT TO DEEPEN WELLS, SIZE OF PRODUCTION TUBING, PENALTIES FOR NOT PRODUCING THE ALLOWABLE AND CREDITS OR PENALTIES FOR WATER DRIVE, GAS UTILIZATION, AND INJECTION, ARE EITHER LESS GENEROUS OR REQUIRE CLARIFICATION. MUNTASSIR'S COMMENT, HOWEVER, INDICATED

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THAT THEY, LIKE BALLU, MAY BE TRYING TO CONCILIATE THE COMPANIES.

6. IN THIS ATMOSPHERE TRIPOLI IS RIFE WITH RUMORS AND CONJECTURES. [REDACTED] QUERIED ECONOFFICER JANUARY 3 ABOUT STORY [REDACTED] TO EFFECT THAT LIBYANS ABOUT TO ASK FOR ANOTHER POSTED PRICE INCREASE. ECONOFFICER REPLIED WE HAD NO SUCH INDICATION AND INDEED IT WOULD SEEM TO RUN COUNTER TO EVERYTHING ELSE WE KNOW ABOUT LARG'S INTENTIONS. ON JANUARY 4, [REDACTED] RUMOR THAT MURPHY AND HISPANOIL HAD BEEN ASKED TO COME IN FOR PARTICIPATION TALKS. THIS WAS APPARENTLY GARBLE OF MORE ACCURATE RESIDENT REPRESENTATIVE IN LAR AND HAD ASKED COMPANY TO SEND ONE.

7. COMMENT. WE HESITATE TO PREDICT ACTUAL SCENARIO FOR NEGOTIATIONS, BUT FOLLOWING SEEM TO BE GOOD SURMISES FROM WHAT WE DO KNOW. FOR VARIOUS REASONS WE SEE LARG'S OPENING POSITION AS BEING CLOSE TO ITS ALREADY ANNOUNCED "THREE PRINCIPLES" OF FIFTY PERCENT PARTICIPATION, COMPENSATION AT NET BOOK VALUE, AND MARKETING OF CRUDE AT HALF-WAY PRICE. THIS IS, OF COURSE, A LONG WAY FROM WHAT COMPANIES WILL ACCEPT AND WE CAN EXPECT SOME INITIAL TOUGH BARGAINING AS THE COMPANIES ATTEMPT--PROBABLY IN THE END SUCCESSFULLY-- TO GET THE LARG TO LOWER THE ANTE.

8. THE RCC'S PERCEPTIONS OF THE LAR'S SHORT AND LONG-TERM GOALS AND INTERESTS WILL BE MAJOR DETERMINANT IN THE FORTHCOMING NEGOTIATIONS. THESE CONSIDERATIONS WILL, WE THINK, FORCE ON THE LARG A GRUDGINGLY ACCEPTED PRACTICALITY. THE LARG PROBABLY DOES NOT WANT TO CURTAIL ITS INCOME FURTHER; IT HAS PRESSING SHORT-TERM REQUIREMENTS WHICH CAN BE EXPECTED TO GROW IN THE LONGER TERM. IN LONGER TERM LARG MUST DISCOVER WAY TO KEEP OIL PRODUCTION UP AND TO DO THIS MUST HAVE ADDITIONAL RESERVES AVAILABLE FOR EXPLOITATION. THIS IN TURN REQUIRES ADDITIONAL INVESTMENT IN EXPLORATION AND PRODUCTION FACILITIES AND MARKETS. ALL OF THIS PROBABLY REQUIRES THE CONTINUED PRESENCE AND COOPERATION OF THE INTERNATIONAL OIL INDUSTRY. [REDACTED]

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[REDACTED] THE OUTCOME OF THE NEGOTIATIONS, WE THINK,
WILL BE RATHER LIKE THE RIYADH SETTLEMENT. ON THE OTHER
HAND WE DO NOT SEE THE BEGINNING OF A NEW ERA IN LARG-OIL
COMPANY RELATIONS JUST AROUND THE CORNER. MUTUAL DISTRUST
RUNS TOO DEEP. GDS.
JOSIF

NOTE BY DC/T: NOT PASSED CAIRO.

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